

MONTHLY REPORT ON GENERAL CONDITIONS IN SWITZERLAND AND AUSTRIA

October 1953

BANK ACTIVITIES:

Bank acceptances, finance company bills sold:

Swiss National Bank, Zurich	\$ 559,435.- N.Y.
Union Bank of Switzerland, Zurich	2,251,783.- S.F.
Leu & Co.'s Bank, Ltd., Zurich	150,009.- N.Y.
Industrial & Commercial Bank Zurich Ltd., Zurich	500,636.- N.Y.
Neue Guyerzeller Bank, Zurich	360,000.- N.Y.
Bank Landau & Kimche A.G., Zurich	200,000.- N.Y.
Banco di Roma per la Svizzera, Lugano	1,500,000.- N.Y.
Bank in Langenthal, Langenthal	100,000.- N.Y.
Hentsch & Co., Geneva	40,056.- N.Y.
Austrian National Bank, Vienna	4,079,136.- N.Y.

New accounts opened:

Darier & Co., Geneva	100,000.- N.Y.
Bank Landau & Kimche A.G., Zurich	220,000.- N.Y.

Time deposits renewed:

Swiss Bank Corporation, Zurich, 90 days at 1-3/4%	250,000.- S.F.
Union Bank of Switzerland, Zurich, do	500,000.- S.F.

New time deposits:

Austrian National Bank, Vienna, do	500,000.- N.Y.
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Some Swiss banks are now reducing purchases of dollar bank acceptances and finance paper, in order to show larger cash reserves at the year-end (window dressing). The money market continues very liquid. Many investors have reduced their holdings of U.S. and Canadian shares and are watching political and economic developments, particularly in regard to overproduction of farm products.

The change back to inflationary rates, forced on the Republican party, is regretted here by the sound money advocates. Most central banks in Western Europe, however, have reduced their abnormal discount rates this year and business prospects are good. The Swiss textile trade, particularly in highgrade fabrics, has booked orders for nine months' ahead. Importers of metals are still holding back, but cotton imports have been resumed. More cotton than formerly is now being purchased from Mexico, Syria and Egypt.

New long-term loans to foreign borrowers are under preparation, namely to the Belgian Congo, Australia and the World Bank, Washington. Anticipating the amounts needed for transfer, the exchange rate of the U.S. Dollar has lately risen from Fr.4.28½ to 4.29½. A further loan to South Africa has also been mentioned.

The Belgian Congo loan at 4%, guaranteed by Belgium, will be offered for public subscription from November 3-9, namely Fr.60,000,000.- at par, repayable after 1967, at the rate of Fr.5,000,000.- p.a. The last instalment will be due in 1979. The underwriters Syndicate is headed by Credit Suisse and Swiss Bank.

Corporation. Interest and principal can also be received in Congolese francs, but must be paid outside the E.P.U. As the previous Belgian Congo loan has lately been selling at 103%, the new loan may sell quickly.

"Offshore" purchase orders placed by the three branches of U.S. Defense are now reported with a total of \$2-1/2 billions, principally for the re-armament of our European friends. This may include airports and pipelines in France, etc. In the fiscal year 1951/52 the total was \$629 mill. and 1952/53 \$1,598 mill. of orders were given to 15 European countries, including now also Portugal, Spain, Turkey and Yugoslavia. The lion's share went to France, namely \$332,4 mill. the first year and \$693,4 mill. for the year ending June 30/53. Switzerland so far received orders for \$50,2 mill., including some which France could not handle.

The eighth meeting of GATT (General Agreement on Tariffs & Trade) was held in Geneva from September 17, through October. It was under two big shadows. One was Britain's attempt to increase the margins in her tariff rates on farm products in favor of Commonwealth partners. The Europeans stopped this so that British duties on non-Commonwealth products cannot be raised without putting the same duties on imports from Commonwealth sources. The other was the U.S. proposal to increase restrictions on imports of farm products, which was strenuously criticized by the Danes, Dutch and others.

The U.S. Delegate Brown declared that hereafter all U.S. negotiations concerning tariff matters will be conducted within GATT rules. Japan was admitted as a member, despite strong opposition by Britain, Australia and New Zealand. It is hoped that Japan, as a member, may be more easily prevented from resuming the unfair trading methods, dumping, copying, used freely before the war.

Switzerland is not a member because the organizers at Havana in 1948 were unwilling to grant certain precautionary measures for the protection of her sound balance of payments. The Belgians, however, have now proposed certain amendments, which the Swiss had already advocated in 1948 and the possibility of Switzerland joining GATT is drawing nearer.

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International gold markets, depressed for some time, were recently disturbed by new developments. From Paris the record low of Fr.454.- per gr., equal to \$36 5/8 per ounce has been reported. Contributing to this were sales by French hoarders and greater than usual sales from Russia as well as the decision of South Africa to sell hereafter coinage gold, 997 fine, to save the reconversion cost due on industrial gold, of about 36 \$ per ounce. Australia, Rhodesia and other smaller producers stopped the sale of industrial gold last year. South African sales in the free market will continue at the rate of 40% of total output. Hongkong now allows trading in transit gold to re-establish its position against the growing competition of Bangkok and Macao (via Saigon).

French private holdings of gold are estimated to exceed now seven billion dollars or roughly one third of our reserves at Fort Knox. Other large holdings are being accumulated via Beirut by the Arab countries, out of oil royalties. The old proposal to freely issue Swiss gold coins again, is now being revived. The efforts of some Swiss banks to obtain permission to issue and openly sell here gold deposit certificates, as certain banks in Tangier do it, have failed so far. The National Bank objects, as it might undermine confidence in paper money.

AUSTRIA:

Austria's gold and foreign exchange reserves increased four times during the past year, namely from Sch.1,363 to 5,761 million, and her note issue is now covered 50%. This miracle, as one banker in Vienna called it, can, however, easily be explained: Tourists last winter and this summer brought record amounts of foreign exchange and exports have also improved, but the increase is partly due to the adjustment from Sch.21 to the uniform rate of 26 per dollar of the gold and foreign balances. It helped also to cover losses taken for some time by paying 26 Sch. to the tourists and selling at 21 to importers in order to hold down industrial production costs.

The uniform rate was adopted at a fortunate moment last April when world commodity prices began to decline, so that living costs have hardly been affected. The Austrians are also happy over the news that the Russians have stopped selling Schillings in Switzerland, where Austrian notes are now nearly at par. The Russians are even buying Schillings now from the Austrian National Bank to refinance the USIA enterprises they took over in 1945, of which the oil wells and refineries at Zistersdorf are the largest. Paying no taxes and shipping nearly the entire output to Russia, they have drained these enterprises of all reserves, so that supplies and wages must now be paid every month from their exports to the Soviet countries.

Publication of Austrian bank statements has been delayed by the problem of German war bonds and Treasury notes, which should be adjusted against German assets in Austria. Control over the latter was given to the Austrian government in 1949 and the Germans are vehemently requesting their release. The Austrians have also large claims, particularly the German war loans forced on them, now devalued ten to one and held blocked in East Berlin. Some of the German investments were directly acquired with Austrian capital, borrowed from Vienna insurance companies and passed on to a company in Berlin. Control was thus obtained for instance of leading Austrian power enterprises under the name of Alpen Elektrowerke. The Austrian commercial banks, thanks to better earnings, have written off most of their losses on war bonds, whereas some savings banks may need government help if their German bonds cannot be adjusted more favorably.

Periodical statements of the National Bank are available and attached are comparative figures.

Britain and France, following Russia's example, have agreed to assume the occupation costs beginning next January. The USA did it since 1949. Hence a substantial reduction in the special war tax is expected. This tax was 20% on income and corporations, of which roughly 10% was for rebuilding and repairs, of bombed property, the bulk of which is completed. Occupation costs paid by Austria to the end of 1953 will total Sch.7,206 mill., a stupendous sum for a small country.

An encouraging business revival is reported. It began last spring, helped by easier loan policies and three reductions of bank rate, now 4%. The rate on savings deposits has been reduced to 3-1/2%. But commercial loans still cost 8-1/2%, reduced from 9-1/2%. Businessmen, however, complain that this is still too high and demand 6-1/2% and reduced public investments for economic reconstruction.

The British wool credit has been renewed a sixth time, this time for £1,500,000.- and Swiss banks have started this year to give certain credit facilities to Austrian banks.

Imports to September 30, this year, amounted to Sch.8,835 mill. and exports 9,309 mill. Marshall imports were reduced to 716 mill. This year may show the

first annual export surplus, compared to chronic deficits also of the First Republic. On balance, therefore, Austria's prospects have materially improved and if East-West trade, for which Vienna may again be a most active clearing point, can be revived soon, a greater diversification and larger volume in foreign trade can be expected.

October 31, 1953

M.F. Hoesti
Representative

AUSTRIAN NATIONAL BANK

in millions of Schilling

	Gold	Foreign Exchange & Notes	Coins	Discounted bills. Recon- struction credits	Treasury Notes		Secured loans	Advances to govt.	Note Issue	Liabilities	
					Redis- c.	Direct from govt.				sight	time
Feb. 1938	243	177	-	186	-	-	1	612	593	267	-
End 1946	0,1	17	6	0	-	-	0	12,547	5656	2,898	4,015
" 1950	50	449	3	3,036	749	1,200	35	4,124	6349	1,416	1,882
" 1951	51	592	2	5,752	807	1,403	34	2,030	8032	1,120	1,510
Sept. 1952		1,363									
End 1952	98	2,162	6	5,994	611	1,118	33	1,782	9048	985	1,770
1953											
March	100	2,489	14	5,747	555	730	29	1,782	8770	693	1,984
May	100	2,965	15	5,879	545	385	24	1,782	8889	834	1,972
June	100	3,544	16	5,795	534	196	24	1,777	9147	843	1,996
July	100	4,323	16	5,749	534	76	12	1,777	9471	1,040	2,075
Aug.	100	5,109	19	5,631	534	116	12	1,777	9608	1,607	2,084
Sept.	101	5,761	17	5,387	528	75	12	1,777	9601	2,055	2,003

FROM Bulletin of Swiss National Bank of October 15, 1953